

Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
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FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 2331
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UNCLAS MEXICO 08163

EO 11652: N/A
TAGS: EFIN MX
SUBJECT: INTEREST RATE REFORM

1. SUMMARY: BANK OF MEXICO DIRECTOR GENERAL ROMERO
KOLBECK ANNOUNCED OUTLINES OF LONG-AWAITED INTEREST RATE
REFORM ON MAY 20. BANK OF MEXICO IS SETTING MAXIMUM RATES
ON TIME DEPOSITS, WHILE PERMITTING BANKS TO PAY ANY RATES
AT OR BELOW MAXIMUM. END SUMMARY.

2. BANKS WILL BE PERMITTED TO TAKE SHORT TERM DEPOSITS,
THREE DAYS, ONE WEEK, AND ONE MONTH THAT WILL PAY ANNUAL
INTEREST RATES OF NO MORE THAN 5.6 PERCENT, 5.8 PERCENT
AND 8 PERCENT, RESPECTIVELY, NET OF TAXES. FINANCIAL
BONDS, WHICH PAY 7.5 PERCENT NET OF TAXES AND ARE REDEEM-
ABLE UPON DEMAND WILL BE PHASED OUT OVER A TWO AND ONE-
HALF YEAR PERIOD.

3. MAXIMUM INTEREST ON THREE, SIX, TWELVE, 18 AND 24
MONTHS TIME DEPOSITS WILL BE 11 PERCENT, 13 PERCENT, 15
PERCENT, 15.5 AND 16 PERCENT, NET OF TAXES. THE PREVIOUS
RATES FOR DEPOSITS IN EXCESS OF ONE MILLION PESOS RANGE
FROM 8.5 PERCENT FOR THREE MONTHS, TO 10 PERCENT FOR SIX
MONTHS AND 12.75 PERCENT FOR TWELVE MONTHS.

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4. EACH INSTITUTION IS FREE TO SET ITS OWN RATES AS LONG
AS THEY DO NOT EXCEED THE MAXIMUM. THE BANK OF MEXICO
WILL ALTER THE MAXIMUM RATES AS "MARKET CONDITIONS AND
ECONOMIC OBJECTIVES" REQUIRE. EXISTING DEPOSITS ARE NOT
AFFECTED. THE MINIMUM AMOUNT FOR TIME DEPOSITS, NOW
100,000 PESOS, IS ABOLISHED.

5. THE BANK OF MEXICO IS MAKING AN UNEXPLAINED EFFORT TO
MINIMIZE ANY INCREASE IN INTEREST RATES ON LOANS.

6. WHILE INCREASE IN ALLOWABLE RATES IS NOT DRAMATIC,
MOVEMENT TOWARD MORE FLEXIBLE AND MARKET-ORIENTED RATES
IS ENCOURAGING'

7. THESE INTEREST RATES APPLY TO PESO DEPOSITS.

WASHINGTON WILL RECALL THAT INTEREST RATES ON "MEX-DOLLARS"
WERE "REFORMED" IN EARLY APRIL. INTEREST RATES ON THESE
DOLLAR-DENOMINATED TIME DEPOSITS ARE ONE PERCENTAGE POINT
OVER THE RATE FOR THE CORRESPONDING LONDON EURO-DOLLAR
DEPOSIT, PLUS AN AMOUNT EQUIVALENT TO THE MEXICAN 21 PER-
CENT WITHHOLDING TAX ON INTEREST. THOMPSON

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